

TOP SECRET

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1. USSR reportedly makes new trade offer to Afghanistan:

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The American embassy comments that acceptance of such a Soviet proposal would give the USSR a near stranglehold on most Afghan exports and imports. The embassy adds that this development is a strong indication that Finance Minister Malik is resolved to divert Afghanistan's trade channel to and through the USSR in the face of growing pressure on the Afghan economy by Pakistan's de facto blockade.

Comment: Afghan prime minister Daud and Finance Minister Malik may be seriously considering a rearrangement of Afghan trade patterns. It is unlikely, however, that they can actually do so. A report that King Zahir Shah has personally intervened in the Afghan-Pakistani dispute, as well as distinct signs that the Afghan government is gradually giving in to Pakistani demands, indicates that Prime Minister Daud no longer has a free hand in making policy.


Furthermore, Afghanistan would probably find it difficult, even if Prime Minister Daud so desired, to import through the USSR the 2,000,000 to 3,000,000 imperial gallons of gasoline it now obtains from Western sources, the American cars and trucks which now comprise practically the whole of the Afghan transportation system, and to export the karakul skins it trades with the United States and which constitute the country's largest hard currency earner.

In the case of petroleum products, however, Soviet construction of bulk-storage facilities and pipelines in Afghanistan suggests a Soviet intention ultimately to make Afghanistan dependent on the USSR as its principal supplier. (Concurred in by ORR)

SOVIET UNION

2. Drought reported in parts of 'new lands':

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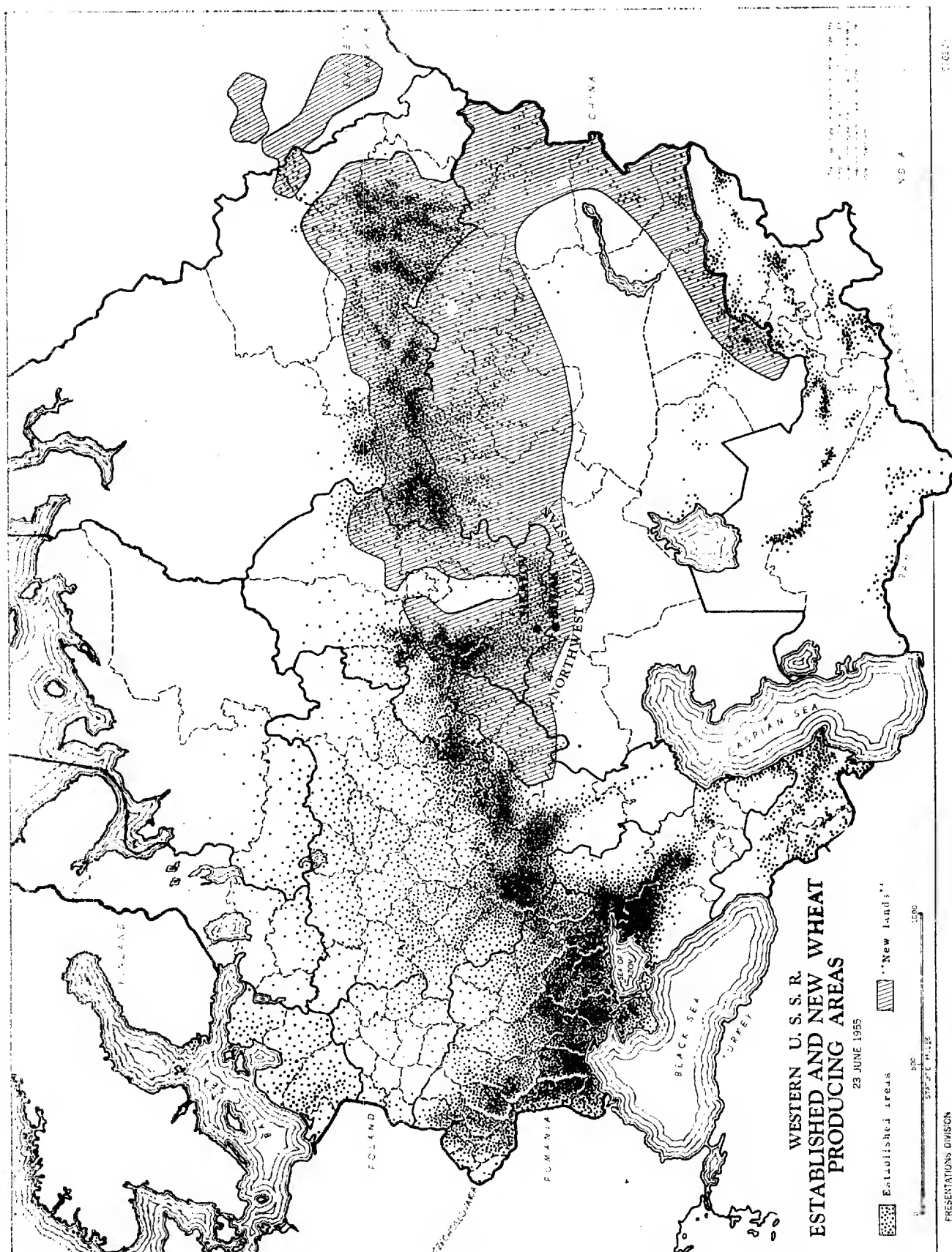
 American embassy officers returning from northwest Kazakh SSR and Chkalov Oblast at the edge of the 'new lands' area reported "dry, hot, dusty weather conditions," with crops suffering particularly in northwest Kazakhstan. Comments by local residents suggested that grain was "burning up" and that conditions this year are much less favorable than last year. In the town of Bulak (see map, p. 5), one resident remarked that the "last time it rained" was 5 or 6 May.

Comment: Rainfall thus far in most of the USSR has been favorable, but less rain has fallen in the "new lands" this spring than in the comparable period in 1954. Harvests in some "new lands" areas, at least in those reported by the embassy, will be smaller than last year, and unless there is good rainfall within the next month, over-all yields in the "new lands" will be considerably less than in 1954. Last year these areas yielded a bumper crop which offset the losses from the drought-stricken Ukraine and Volga areas. (Prepared by ORR)

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SOUTH ASIA

4. Pakistan's governor general apparently has lost control of new constituent assembly:

The governor general of Pakistan will not have control of the new 80-seat constituent assembly which convenes on 7 July, according to the latest election returns.

The Moslem League, which supported the governor general and his associates in the 21 June elections, can be sure of controlling only 25 of the 40 West Pakistani seats in the assembly. These 25 seats will be insufficient to offset the 30 East Pakistani seats which the United Front opposition is expected to control. The league, however, may win some of the eight West Pakistani seats representing minor states and territories whose holders will be elected by the assembly after it convenes.

Although the governor general may get occasional support from the remaining 10 East Pakistani seats, it is unlikely that a lasting coalition can be established. The governor general's support in the assembly would be weakened even further if, as has been feared, Prime Minister Mohammad Ali and at least two of the Moslem League members from West Pakistan join hands with the East Pakistani opposition.

If a loose coalition of somewhat leftist and frequently anti-American East Pakistani deputies and dissident West Pakistani associates succeeds in obtaining control of the assembly, the governor general would be encouraged to re-assume dictatorial powers in order to prevent a probable breakdown of government. Should he do so, he would find the Pakistani public less willing to accept his action than it was last October.

NEAR EAST - AFRICA

5. French premier suggests high-level talks with US on North African problems:

Premier Faure suggested to Ambassador Dillon on 20 June the desirability of high-level talks on North Africa covering all military problems between the United States and France. Faure mentioned the questions of MDAP equipment, American bases and NATO construction in Tunisia and Algeria, and "wondered" whether Marshal Juin might come to Washington to discuss them.

Faure's personal spokesman added later that the premier intended to move promptly to settle the dynastic problem in Morocco without waiting for ratification of the Tunisian accords. Faure had told Dillon that he intended to press for action on the accords by both houses of parliament before adjournment on 25 July.

Comment: Faure's suggestion of high-level talks may be a reaction to Washington's expressed reluctance to meet a detailed French request for military equipment to be used in Algeria.

The intended move in Morocco probably reflects Paris' hope that concessions on the dynastic issue may satisfy the nationalists. It is likely, however, that some definite steps toward autonomy will be needed to end terrorism in the protectorate.

WESTERN EUROPE

6. Comment on Italian government crisis:

25X1 [] The formation of a new Italian government to replace that of Premier Scelba, who resigned on 22 June, may be a long and difficult process. The most likely eventual solution is a single-party Christian Democratic government relying on support from either the Monarchists on the right or the Nenni Socialists on the left.

The Christian Democrats' left wing, which is larger and stronger than the rightist group, would presumably refuse to support a move to the right which would threaten implementation of their party's social and economic reform program. On the other hand, the rebellion of the right-wing faction in the recent presidential elections and in its refusal to approve Scelba's proposed cabinet reshuffle suggests that it may demand a high price for its co-operation.

As a result of his group's successful maneuver in ousting Scelba, Giuseppe Pella, leader of the Christian Democrats' right wing, will probably be the first candidate for the premiership. Pella, who relied on Monarchist support when he was premier in 1953, is capable of turning either to the right or left for support in forming a new government.

Other leading Christian Democratic candidates for premier are party secretary Fanfani, Budget Minister Vanoni, and former agriculture minister Segni, all identified with the left wing of the party. []

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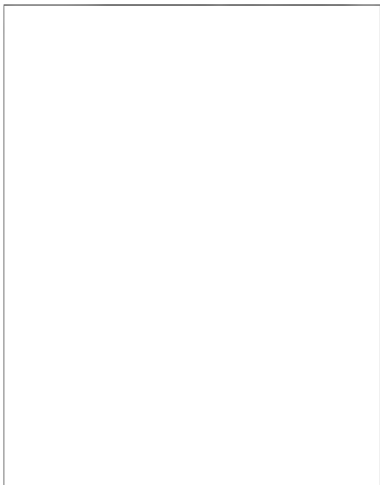
LATIN AMERICA

7. Comment on the Argentine situation:


25X1 [] Executive power in Argentina is reported [] to be exercised by a military junta, although President Peron is still referred to as chief of

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state. This junta includes Army Minister Lucero, the commanding general of the interior, General Emilio Forcher, and the subsecretary of the army, General Jose Embrione. Lucero remains the key figure in the situation. Both Forcher and Embrione are highly respected as well as influential within the services.

The army has apparently not yet succeeded in reaching any agreement with the rebel naval forces. According to the American embassy in Buenos Aires, there is much speculation that the chief point at issue is Peron's future, and a  rebel naval units at Puerto Belgrano have rejected the junta's plan to keep Peron as a figurehead and ease him out later--insisting instead that Peron must be brought to trial.

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The navy's chief bargaining asset is said to be its possession of the original revolutionary documents which implicate personnel of all the armed services and high government civilians. 

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WEEKLY SUMMARY
(15-22 June 1955)

THE FORMOSA STRAITS

**Report of the IAC Current Intelligence Group
for the Formosa Straits Problem**

1. There have been no significant combat operations in the area during the past week.

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3. The move of Chinese Nationalist artillery battalions to the offshore islands, previously reported as being readied for shipment, is now under way. Five Nationalist field artillery battalions and two divisional engineer battalions were moved from Formosa to Quemoy between 16 and 19 June, one division engineer battalion left Formosa for Matsu on 16 June, and two field artillery battalions are scheduled to move from Formosa to Quemoy within a few days.

Six of the seven artillery battalions and the two division engineer battalions are organic to divisions on Quemoy; their arrival will bring the five divisions on Quemoy to approximately full strength and increase Nationalist artillery on Quemoy from 171 to 255 pieces.

The Nationalists are also planning to send the 58th Division from Formosa to Quemoy, a move opposed by US officials. About 21 percent of the Chinese Nationalist army is now disposed on the offshore islands; the move of an additional division would

increase this to over 24 percent of over-all army strength. For MDAP-supported units, the increase would be from 30 percent to 35 percent. [REDACTED]

4. India's Krishna Menon, in recent conversations at the UN and in Washington, has endorsed various Chinese Communist proposals relating to negotiations with the US. Chou and Menon have both suggested early diplomatic contacts between American and Chinese Communist officials, have both argued that the US should make some concessions to improve the atmosphere for talks, and have both recommended that the topics for any talks be defined in very general terms.

Neither Menon nor any other source has provided evidence of a change in Peiping's hard line on substantive issues. The Chinese Communists have consistently asserted that there is no need for a cease-fire and that they wish to negotiate only about the US "occupation" of Formosa. Peiping has left itself room, however, for a possible compromise. [REDACTED]

